

## Message Text

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ACTION AF-10

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 7340

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

UNCLAS SECTION 1 OF 2 PRETORIA 1849

CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, SF

SUBJECT: RESERVE BANK REPORT ON 1976 ECONOMIC PERFORMANCE.

1. SUMMARY: SOUTH AFRICA'S REAL GROSS DOMESTIC PRODUCT (GDP) INCREASED BY 1.4 O/O IN 1976 WHILE REAL GNP DECLINED BY 1.0 O/O. AT CURRENT PRICES, GDP IN 1976 TOTALLED \$33.4 BILLION. CURRENT ACCOUNT DEFICIT WAS \$1.74 BILLION IN 1976 ALTHOUGH RATE CUT BY 50 O/O IN SECOND HALF OF YEAR. MERCHANDISE EXPORTS UP 34 O/O DUE LARGELY TO NON-GOLD MINING WHILE IMPORTS ROSE BY 10.6 O/O. NET INFLOW OF LONGTERM CAPITAL WAS DOWN 36 O/O TO \$1.3 BILLION FORCING LARGE INCREASE IN SHORT TERM FOREIGN BORROWING BY GOVERNMENT. REAL WHITE WAGES IN NON-AGRICULTURAL SECTORS DECLINED BY 3 O/O WHILE REAL NON-WHITE WAGES SHOWED SMALL GROWTH OF ABOUT 2 O/O. LITTLE LIKELIHOOD SEEN OF STRONG RECOVERY IN 1977. END SUMMARY

2. FOLLOWING ARE HIGHLIGHTS FROM MARCH QUARTERLY REPORT OF RESERVE BANK WHICH COVERS FOURTH QUARTER OF 1976 AND UNCLASSIFIED

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CONTAINS CUMULATIVE FIGURES FOR ALL OF 1976. EMBASSY COMMENTS ARE GIVEN IN LAST PARAGRAPH.

3. NATIONAL INCOME ACCOUNTS - GROSS DOMESTIC PRODUCT (GDP) GREW BY 1.4 O/O IN REAL TERMS IN 1976 COMPARED TO 2.1 O/O IN 1975. 1976 FIGURE IS LOWEST REAL GROWTH RATE IN POST-WAR PERIOD BUT REPRESENTS SOMEWHAT BETTER PERFORMANCE THAN NEGATIVE GROWTH

WIDELY EXPECTED. DUE TO FURTHER DETERIORATION IN TERMS OF TRADE, GROSS NATIONAL PRODUCT DECLINED BY -1.0 O/O IN REAL TERMS IN 1976 COMPARED TO DECLINE OF -1.5 O/O IN 1975. OF COMPONENTS OF GDP, AGRICULTURE DECLINED IN REAL TERMS BY -1 O/O IN 1976, MANUFACTURING BY -0.5 O/O, CONSTRUCTION BY -3.5 O/O AND WHOLESALE AND RETAIL TRADE BY -2 O/O. GOLD MINING WAS EVEN WHILE GENERAL GOVERNMENT WAS UP 5 O/O, AND TRANSPORT AND COMMUNICATIONS UP 6 O/O. NON-GOLD MINING WAS ONE NON-GOVERNMENT RELATED SECTOR TO SHOW SUBSTANTIAL REAL GROWTH IN 1976 AT 4 O/O. GDP AT CURRENT PRICES WAS UP 12 O/O TO R29,015 MILLION (\$33,367 MILLION AT EXCHANGE RATE OF ONE RAND EQUALS \$1.15). GROSS DOMESTIC FIXED INVESTMENT DECLINED BY -4.5 O/O IN 1976 IN REAL TERMS WHILE PRIVATE CONSUMPTION EXPENDITURE WAS UP 2 O/O AND GOVERNMENT CONSUMPTION EXPENDITURE UP 7 O/O. QUARTERLY FIGURES FOR CHANGES IN REAL GDP HAVE BEEN REVISED AND NOW SHOW NEGATIVE GROWTH RATES IN SECOND AND FOURTH QUARTERS OF 1976.

4. BALANCE OF PAYMENTS - CURRENT ACCOUNT DEFICIT FOR QUARTER TOTALLED R1,515 MILLION (\$1,742M) COMPARED TO R1,832M IN 1976. OF 1976 FIGURE, R1,014 MILLION STEMMED FROM FIRST SIX MONTHS AND R501 FROM SECOND SIX MONTHS, GIVING 50 O/O DROP IN SECOND HALF OF YEAR. DEFICIT FOR FOURTH QUARTER WAS R396 MILLION. MAIN COMPONENTS OF CURRENT ACCOUNT IN 1976 WERE MERCHANTISE EXPORTS R4,841 MILLION (UP 34 O/O OVER 1976), EXPORT VALUE OF GOLD OUTPUT R2,346M (DOWN X 7.6 O/O), MERCHANTISE IMPORTS R7,433M (UP 10.6 O/O, NET SERVICE PAYMENTS ABROAD R1399M (DOWN 0.2 O/O) AND NET RECEIPTS FROM TRANSFERS OF R130M (DOWN 5.7 O/O). GROWTH IN IMPORTS JUST ABOUT MATCHED INFLATION RATE WHILE JUMP OF 34 O/O IN MERCHANTISE EXPORTS UNCLASSIFIED

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REFLECTS STRONG SHOWING OF NON-GOLD MINING EXPORTS. DECLINE IN EXPORT VALUE OF GOLD OUTPUT ATTRIBUTABLE TO LOWER GOLD PRICE IN 1976.

5. RESERVE BANK HAS REVISED BALANCE OF PAYMENTS DATA TO SHOW IN ADDITION TO CURRENT ACCOUNT A BASIC BALANCE WHICH INCLUDES CURRENT ACCOUNT BALANCE PLUS NET LONGTERM CAPITAL MOVEMENTS. BASIC BALANCE FOR 1976 SHOWS DEFICIT OF R402M (R86 MILLION IN 1975) RESULTING FROM DROP IN LONGTERM CAPITAL INFLOW IN 1976 TO R1,113M COMPARED TO R1,74 M IN 1975. NEW REPORTING SYSTEM ALSO MAKES USEFUL DIVISION ON SHORT TERM CAPITAL MOVEMENTS BETWEEN THOSE NOT RELATED TO GOVERNMENT BALANCE OF PAYMENTS TRANSACTIONS AND THOSE WHICH ARE. FORMER COMPOSED LARGELY OF PRIVATE SECTOR MOVEMENTS SHOWED NET OUTFLOW OF R654M IN 1976 (R219M IN 1975). RESULTING DEFICIT OF R1,059M (DECLINE IN NET FOREIGN EXCHANGE RESERVES) WAS FINANCED BY R837M IN GOVERNMENT SHORT TERM BORROWING AND SDR ALLOCATIONS AND A R219M DECLINE IN GROSS FOREIGN EXCHANGE RESERVES. NEW SYSTEM CLEARLY IDENTIFIES CORE OF SOUTH AFRICA'S

BLANACE OF PAYMENTS PROBLEM: I.E. IN SPITE OF SMALLER CURRENT ACCOUNT DEFICIT IN 1976, DECLINE IN LONG TERM CAPITAL INFLOW AND INCREASE IN NET PRIVATE CAPITAL OUTFLOW FORCED SAG TO FIND COMPENSATORY SHORT TERM FINANCING (OR ALLOW DROP IN GROSS RESERVES) OF R1.056M IN 1976 VS. R305 MILLION IN 1975.

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CAPE TOWN ALSO FOR EMBASSY

6. PRICES AND EMPLOYMENT - CONSUMER PRICES INCREASED BY 11.1 O/O DURING 1976 COMPARED TO 13.5 O/O IN 1975. FOOD COMPONENT OF 1976 CPI WAS UP 11.3 AND SERVICES UP 10.8 O/O. IN FOURTH QUARTER CPI FELL TO 9 O/O ANNUAL RATE. WHOLESALE PRICE INDEX WAS UP 15.1 O/O IN 1976 VS. 18 O/O IN 1975. TOTAL NON-AGRICULTURAL EMPLOYMENT ROSE 2.2 O/O IN FIRST THREE QUARTERS OF 1976 COMPARED TO SAME PERIOD IN 1975. REGISTERED UNEMPLOYMENT OF WHITES, COLOREDS AND ASIANS MORE THAN DOUBLED IN 1976 GOING FROM 10,568 TO 22,207. LAST FIGURES REPRESENT ABOUT 1 O/O OF WORKFORCE IN THOSE CATEGORIES. AVERAGE REAL WAGES (NON AGRICULTURAL) IN FIRST THREE QUARTERS OF 1976 DECLINED BY 1.5 O/O COMPARED TO SAME PERIOD IN 1975. FOR WHITES, REAL WAGES DECLINED BY 3.2 O/O WHILE REAL WAGES FOR NON-WHITES INCREASED BY 1.7 O/O. SUPPLY OF MONEY AND NEAR MONEY GROW BY 9 O/O IN 1976 VS. 17 O/O IN 1975. 1976 GROWTH WAS CONCENTRATED IN FIRST HALF (16O/O) AND SECOND HALF GROWTH WAS ONLY 2 O/O.

7. COMMENT: CONSIDERING SOUTH AFRICA CURRENTLY IN MIDST OF MOST SERIOUS RECESSION IN POSTWAR PERIOD, GROWTH OF 1.4 O/O

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IN REAL GDP AND -1 O/O IN REAL GNP IN 1976 REPRESENTS A BETTER PERFORMANCE THAN MOST OBSERVERS HAD EXPECTED. TWO GROWTH FACTORS WERE HIGH LEVELS OF GOVERNMENT SPENDING IN FIRST HALF OF YEAR AND STRONG EXPORT SHOWING BY NON-GOLD MINING IN SECOND HALF. IF ECONOMY WERE NOW BEGINNING TO RECOVER, SOUTH AFRICANS COULD CONGRATULATE THEMSELVES ON HAVING SURVIVED RECESSION IN BETTER SHAPE THAN MOST WESTERN COUNTRIES DID IN 1974-75 PERIOD. HOWEVER, RECESSION HAS GIVEN EVERY EVIDENCE OF GATHERING MOMENTUM IN LAST SIX MONTHS PARTICULARLY IN MANUFACTURING, CONSTRUCTION AND TRADE. WITH GOVERNMENT CONTINUING TO FOLLOW RESTRICTIVE MONETARY AND FISCAL POLICIES DUE TO BALANCE OF PAYMENTS FACTORS, OVERALL GROWTH IN GDP IN 1977 DOES NOT PROMISE TO BE MUCH BETTER THAN IN 1976 EVEN THOUGH HIGHER GOLD PRICES, BULK MINE EXPORTS AND BETTER CROPS MAY BRING ABOUT GRADUAL RECOVERY LATE IN YEAR. 1977 THEREFORE, APPEARS LIKELY TO BE THIRD CONSECUTIVE YEAR IN WHICH REAL GDP GROWTH RATE HAS REMAINED BELOW 2.5 O/O RATE OF POPULATION GROWTH. THUS RECESSION, WHILE NOT AS DEEP AS EXPECTED, EMERGES AS SIGNIFICANTLY LONGER LASTING. KEY FACTOR IS BALANCE OF PAYMENTS WHICH, IN SPITE OF IMPROVED CURRENT ACCOUNT, CONTINUES TO ACT AS DRAG ON ECONOMIC GROWTH. DROP IN LONG TERM CAPITAL INFLOW BY R630M IN 1976 AND INCREASE IN SHORT TERM OUTFLOW BY R435M BEFORE COMPENSATORY SAG BORROWING) POINTS UP NECESSITY OF CUTTING CURRENT ACCOUNT DEFICIT BELOW R600 LEVEL IN 1977. BARRING UNEXPECTEDLY HIGH GROWTH IN EXPORTS, REDUCTION OF THIS MAGNITUDE IS NOT COMPATIBLE WITH STRONG RECOVERY IN 1977 GIVEN ECONOMY'S IMPORT PROPENSITY. BOWDLER

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